

The Director of Central Intelligence

Washington, D.C. 20505

13 September 1982

MEMORANDUM FOR: Secretary of State
Secretary of the Treasury
Secretary of Defense
Secretary of Commerce
Assistant to the President for
National Security Affairs
United States Trade Representative

1. It seems to me that the United States, and indeed the Alliance, policy of not assisting the Soviet Union in its military buildup is in danger of being weakened by having the pipeline sanctions, which overlap more general policies on credits and energy technology, perceived as related only to Soviet behavior on Poland. This could lose us the possibility that Allied concern about the pipeline sanctions could lead them to greater cooperation in developing a coordinated policy to avoid subsidizing a Soviet military buildup which causes all of us to spend more than we would like to on defense and thus contribute to deficits which produce the interest rates so damaging to all Western nations. The indications that the European partners may be receptive to addressing this broader issue are crystalized in the attached lead article from last week's Economist, which emphasizes that even if martial law should be relaxed in Poland the Soviet threat would still remain.

2. We are now committing some 7 percent of our economic effort and our Allies some 3 1/2 percent of theirs to defend against a Soviet military threat which consumes 14 percent or more of their GNP. All Western leaders will have an increasingly hard time asking their citizens to carry this burden while they pursue policies which help the Soviets maintain a threat which requires an increasing burden of us.

3. It is the established policy of the United States and its Allies to refrain from transactions which would transfer strategically significant technology to the Soviet Union. We now recognize that despite this policy, the increased accuracy, power, sophistication and volume of Soviet weapons have depended to a larger extent than we ever dreamed on Soviet ability to acquire Western technology despite prevailing restrictions. A substantial degree of acceptance of this fact seems to have developed in the Alliance.

4. Soviet hard currency difficulties and the short life of its ability to earn hard currency by oil exports have both reduced Soviet credit worthiness and enhanced the importance of Western credit to its ability to maintain its military buildup. Loans made by the Allied nations on a subsidized basis have the effect of a transfer of cash from Allied resources to assist the Soviet military program.

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5. The application of Western technology, skills, capital and markets to develop Soviet gas can provide the Soviets with as much as \$35 billion by 1995, at constant prices enough to carry better than 15 percent of their present military budget.

William J. Casey

Attachment

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